

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 242
 Ways and Means

(Delegate Hixson, *et al.*)

Education - Geographic Cost of Education Index - Funding

This bill changes the Geographic Cost of Education Index (GCEI) formula from a discretionary State aid program to a mandated State aid program. In addition, it moves the start of the five-year phase-in schedule to fiscal 2007.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund expenditures could increase by \$57.6 million in FY 2007 to provide funding for the GCEI formula. Mandated future year expenditure estimates reflect the phase-in of the formula, projected enrollment changes, and inflation. The current discretionary program has not been funded in the budget. Revenues would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	57.6	78.2	95.5	113.0	133.9
Net Effect	(\$57.6)	(\$78.2)	(\$95.5)	(\$113.0)	(\$133.9)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local school revenues from State aid could increase by \$57.6 million in FY 2007 and would increase by an estimated \$78.2 million in FY 2008 and \$95.5 million in FY 2011.

Small Business Effect: Minimal.

Analysis

Current Law: The GCEI formula is established in statute but is not mandated. The discretionary formula phases in from fiscal 2006 to 2010.

Background: One of the recommendations of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was to adjust State aid to reflect regional differences in the cost of education that are outside the control of local jurisdictions. The Thornton Commission defined adequate funding as revenues sufficient to acquire the resources needed to reasonably expect that students can meet the State's academic performance standards. Because the cost of these resources may vary by jurisdiction, the Thornton Commission recommended that State aid be adjusted to account for the variations. However, the commission did not believe that an acceptable GCEI existed at the time it was completing its work. The commission recommended that the Maryland State Department of Education (MSDE) contract with a private consultant to develop a Maryland-specific index to be used to adjust State aid beginning in fiscal 2005. This recommendation was codified in the Bridge to Excellence in Public Schools Act of 2002.

The consultants hired by MSDE submitted a final report entitled *Adjusting for Regional Differences in the Cost of Educational Provision in Maryland* on December 31, 2003. The report includes a GCEI with index values that range from 0.948 in Garrett County to 1.048 in Prince George's County. **Exhibit 1** shows the index that appears in the report. The index was used to establish a discretionary GCEI adjustment formula that was set in statute in 2004 and would phase up from 50% in fiscal 2006 to 100% in fiscal 2010. The formula increases aid for counties with above average costs (*i.e.*, GCEI values greater than 1.0) but does not reduce aid for counties that have below average costs (*i.e.*, GCEI values less than 1.0). Funding for the GCEI formula was not provided in fiscal 2006 and is not included in the proposed fiscal 2007 State budget.

Exhibit 1
Geographic Cost of Education Index

<u>School System</u>	<u>GCEI Value</u>	<u>School System</u>	<u>GCEI Value</u>
Allegany	0.959	Harford	0.992
Anne Arundel	1.018	Howard	1.015
Baltimore City	1.042	Kent	1.010
Baltimore	1.008	Montgomery	1.034
Calvert	1.021	Prince George's	1.048
Caroline	1.000	Queen Anne's	1.011
Carroll	1.014	St. Mary's	1.002
Cecil	0.989	Somerset	0.973
Charles	1.020	Talbot	0.991
Dorchester	0.978	Washington	0.974
Frederick	1.024	Wicomico	0.971
Garrett	0.948	Worcester	0.959

Source: *Adjusting for Regional Differences in the Cost of Educational Provision in Maryland*

State Expenditures: General fund expenditures would increase by \$57.6 million in fiscal 2007 if the bill results in funding for GCEI being added to the fiscal 2007 State budget. The funding would be distributed to local school systems in accordance with the GCEI formula, which provides additional education aid to 13 of the 24 local school systems.

Beginning in fiscal 2008, funding for the GCEI formula would be mandated and would increase from an estimated \$78.2 million in fiscal 2008 to an estimated \$133.9 million in fiscal 2011. GCEI funding projections for the 13 local school systems that would receive additional State aid are shown in **Exhibit 2**. The large annual funding increases are due to the implementation schedule for the GCEI formula, which would phase up from 50% to 100% of funding over the five-year period. After fiscal 2011, annual increases in funding would be driven by inflation and enrollment changes.

Exhibit 2
GCEI Formula Funding
Fiscal 2007 to 2011
(\$ in Thousands)

<u>School System</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Phase-in Percent	50%	62%	74%	86%	100%
Anne Arundel	\$3,847	\$5,217	\$6,356	\$7,547	\$8,980
Baltimore City	10,418	13,887	16,627	19,279	22,378
Baltimore	2,442	3,302	4,016	4,749	5,627
Calvert	1,057	1,467	1,809	2,161	2,579
Carroll	1,188	1,618	1,984	2,359	2,807
Charles	1,510	2,083	2,575	3,100	3,727
Frederick	2,758	3,803	4,716	5,665	6,816
Howard	2,121	2,903	3,588	4,287	5,115
Kent	68	90	107	122	141
Montgomery	13,703	18,700	22,996	27,441	32,901
Prince George's	18,114	24,667	30,168	35,562	42,003
Queen Anne's	241	327	407	490	588
St. Mary's	<u>94</u>	<u>128</u>	<u>159</u>	<u>189</u>	<u>228</u>
Total	\$57,559	\$78,193	\$95,509	\$112,953	\$133,891

Local Revenues: Local school revenues from State aid could increase by an estimated \$57.6 million in fiscal 2007. Beginning in fiscal 2008, the State aid increases would be mandatory. The projected funding increases for the 13 school systems that would be affected by the bill are shown in Exhibit 2.

Additional Comments: Because of the change in the phase-in schedule, the mandated GCEI formula proposed in this bill would cost less to fund than the discretionary formula currently in statute. The difference between the current formula and the proposed formula is \$13.8 million in fiscal 2007 and is an estimated \$15.1 million in fiscal 2008, \$15.5 million in fiscal 2009, and \$18.4 million in fiscal 2010.

Both the proposed and current formula are phased in at 100% by fiscal 2011, so there would be no difference in the formula calculations after fiscal 2010.

Additional Information

Prior Introductions: A similar bill was introduced last year as HB 899. The bill received a hearing in the House Committee on Ways and Means, but the committee took no action on the bill.

Cross File: None.

Information Source(s): Maryland State Department of Education, Department of Legislative Services

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